

B U S I N E S S S I T U A T I O N

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REAL GROSS domestic product (GDP) increased 4.5 percent in the first quarter of 1999, according to the "advance" estimates of the national income and product accounts (NIPA's), after increasing 6.0 percent in the fourth quarter of 1998 (chart 1 and table 1).¹ Prices paid by U.S. residents for goods and services—the price index for gross domestic purchases—increased 1.0 percent, about the same as in the fourth quarter. Real disposable personal income increased

4.6 percent after increasing 4.3 percent, and the personal saving rate (current-dollar saving as a percentage of current-dollar disposable personal income) continued its downtrend, decreasing to negative 0.5 percent; in the fourth quarter, it had been 0.0 percent.²

The largest contributor to the first-quarter increase in real GDP was personal consumption expenditures (PCE), which increased 6.7 percent (its biggest increase in 11 years) and contributed 4.52 percentage points to GDP growth (table 2). Within PCE, durable goods, nondurable goods,

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarters except those in the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

2. For a perspective on the downtrend in the saving rate, see "Note on the Personal Saving Rate," SURVEY OF CURRENT BUSINESS 79 (February 1999): 8–9.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

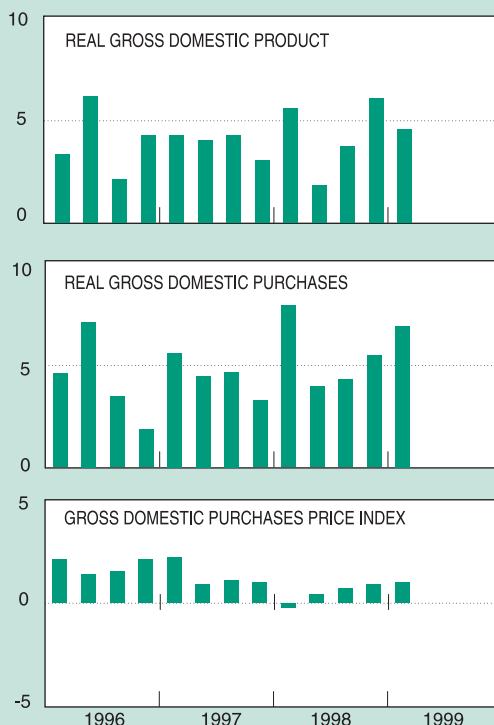
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	1999	1998	1999	1998	1999				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	7,762.5	33.9	67.9	111.2	84.8	1.8	3.7	6.0	4.5
Less: Exports of goods and services	989.5	-19.8	-6.8	44.3	-20.1	-7.7	-2.8	19.7	-7.7
Plus: Imports of goods and services	1,295.0	26.9	7.0	35.3	35.4	9.3	2.3	12.0	11.7
Equals: Gross domestic purchases	8,032.8	73.7	80.2	102.5	131.5	3.9	4.2	5.4	6.8
Less: Change in business inventories	45.2	-53.2	17.5	-11.5	1.0	.....	.....	.....	.....
Nonfarm	40.2	-56.0	17.1	-9.5	2.7	.....	.....	.....	.....
Farm	5.2	3.4	.4	-1.9	-2.0	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,982.7	124.2	63.4	112.7	130.2	6.7	3.3	6.0	6.8
Personal consumption expenditures	5,331.9	75.1	51.6	64.2	85.9	6.1	4.1	5.0	6.7
Durable goods	796.4	19.1	4.3	41.3	21.4	11.2	2.4	24.5	11.5
Nondurable goods	1,599.9	19.7	8.2	16.0	34.8	5.3	2.1	4.2	9.2
Services	2,949.7	37.5	38.0	12.4	32.5	5.4	5.4	1.7	4.5
Gross private domestic fixed investment	1,342.4	39.2	6.8	40.1	31.4	13.4	2.2	13.2	9.9
Nonresidential fixed investment	1,010.3	28.5	-1.7	33.2	18.4	12.8	-7	14.6	7.6
Structures	204.9	-1.2	.1	3.0	-1	-2.3	.2	6.0	-1.5
Producers' durable equipment	821.7	32.5	-2.0	32.2	20.2	18.8	-1.0	17.8	10.5
Residential investment	336.1	10.6	7.4	7.6	12.0	15.0	9.9	10.0	15.6
Government consumption expenditures and gross investment	1,324.6	11.8	4.8	10.7	14.3	3.7	1.5	3.3	4.4
Federal	459.8	8.0	-1.6	8.1	-8	7.3	-1.4	7.3	-7
National defense	301.3	7.0	3.2	1.1	-3.3	9.9	4.3	1.3	-4.2
Nondefense	157.6	1.0	-4.5	6.8	2.4	2.6	-11.5	19.8	6.3
State and local	865.0	3.8	6.4	2.7	15.0	1.8	3.1	1.3	7.3
Addendum: Final sales of domestic product	7,712.5	83.9	51.2	121.3	83.6	4.6	2.8	6.6	4.5

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

CHART 1

Selected Measures: Change from Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

and services all posted larger-than-usual increases. Fixed investment also increased in the first quarter. Nonresidential fixed investment increased 7.6 percent and contributed 0.82 percentage point to GDP growth; producers' durable equipment accounted for the increase. Residential investment increased 15.6 percent and contributed 0.67 percentage point to GDP growth. These increases were partly offset by an increase in imports, which contributed -1.46 percentage points to GDP growth, and by a drop in ex-

ports, which contributed -0.89 percentage point. The increase in imports was partly accounted for by computers; the drop in exports was partly accounted for by civilian aircraft.

The slowdown in real GDP growth from 6.0 percent to 4.5 percent was mainly accounted for by a downturn in exports; nonautomotive capital goods were the largest contributor to this downturn, but most other major end-use categories also contributed. Real gross domestic purchases—GDP less exports plus

First-Quarter 1999 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the first quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing inventories (3), trade inventories (2), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), State and local employment (3), and the Employment Cost Index for the quarter;

GDP prices: Consumer Price Index (3), Producer Price Index (3), U.S. Import and Export Price Indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1999:I

[Billions of dollars, seasonally adjusted at annual rates]

	1998			1999		
	October	November	December	January	February	March ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	174.2	176.7	179.0	176.5	183.3	178.4
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	67.2	55.5	44.9	58.3	37.6	36.5
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	193.8	198.5	203.2	206.1	209.2	212.2
2-or-more-unit structures	25.4	25.0	25.0	26.3	26.7	27.0
Change in business inventories, nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	12.2	37.7	-31.1	-8.0	31.5	24.8
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	699.0	685.3	673.6	662.0	652.1	656.6
Excluding nonmonetary gold	689.1	677.4	670.6	659.3	649.1	653.0
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	942.3	945.3	919.6	941.1	965.9	955.1
Excluding nonmonetary gold	934.2	938.1	915.2	937.6	963.2	952.1
Net exports of goods (exports less imports)	-243.3	-260.0	-246.0	-279.1	-313.8	-298.5
Excluding nonmonetary gold	-245.1	-260.7	-244.6	-278.3	-314.1	-299.1
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	131.0	130.6	133.5	141.0	146.4	140.1

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

imports—increased 6.8 percent after increasing 5.4 percent.

Motor vehicles.—Real motor vehicle output decreased 12.2 percent in the first quarter after a fourth-quarter jump of 87.7 percent that at least partly reflected a rebound from a midsummer

strike at a motor vehicle manufacturer. The downturn was accounted for by both auto and truck output (table 3). Excluding motor vehicle output, GDP increased 5.2 percent after increasing 3.8 percent.

Final sales of motor vehicles to domestic purchasers rose less than 1.0 percent after increasing 53.8 percent. Auto sales turned down, and truck sales decelerated substantially. Purchases by consumers and by government turned down, and purchases by businesses increased less than in the fourth quarter.

Consumer purchases turned down despite favorable developments in several factors frequently considered in analyses of consumer spending. The growth in real disposable personal income accelerated to 4.6 percent from 4.3 percent. The Index of Consumer Sentiment (a measure of consumer attitudes and expectations prepared by the University of Michigan Survey Research Center) increased from an already high level. The unemployment rate decreased to 4.3 percent from 4.4 percent. Factors specific to motor vehicle purchases, such as interest rates on new-car loans at commercial banks, changed little.

Imports of motor vehicles increased less than in the fourth quarter, and exports turned down.

Motor vehicle inventory investment decreased after increasing. The decrease reflected a swing from accumulation to liquidation in auto

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1998			1999
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.8	3.7	6.0	4.5
Percentage points at annual rates:				
Personal consumption expenditures	4.09	2.78	3.48	4.52
Durable goods .....	.91	.20	1.90	.96
Nondurable goods	1.01	.42	.84	1.75
Services	2.14	2.15	.74	1.82
Gross private domestic investment	-.75	1.22	1.42	1.55
Fixed investment	1.95	.33	1.95	1.49
Nonresidential	1.35	-.08	1.52	.82
Structures	-.07	.01	.17	0
Producers' durable equipment	1.42	-.09	1.35	.83
Residential .....	.60	.41	.43	.67
Change in business inventories	-2.66	.89	-.53	.06
Net exports of goods and services	-2.08	-.62	.52	-2.35
Exports	-.92	-.32	2.02	-.89
Goods	-.98	.04	1.76	-1.00
Services .....	.06	-.36	.26	.11
Imports	-1.18	-.30	-1.50	-1.46
Goods	-1.19	-.32	-1.46	-1.33
Services .....	.01	.01	-.04	-.14
Government consumption expenditures and gross investment .....	.64	.27	.60	.77
Federal .....	.44	-.09	.44	-.04
National defense .....	.38	.17	.06	-.17
Nondefense .....	.06	-.26	.38	.13
State and local .....	.20	.35	.16	.81

NOTE.—The component contributions for the fourth quarter of 1998 are corrected from those that were shown in table 2 of last month's "Business Situation" (see the box "Errata" on page D-25 of this issue).

Table 3.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1998			1999
		1999	1998			1999	II	III	IV
	I	II	III	IV	I				
Output	286.7	-7.8	-7.7	43.2	-9.5	-11.2	-11.2	87.7	-12.2
Autos	114.0	-9.7	4.5	11.6	-9.0	-29.2	17.8	48.9	-26.2
Trucks	172.0	1.8	-12.1	31.4	-6	4.8	-27.9	122.9	-1.3
Less: Exports	24.0	-9	-4.6	2.7	-2	-12.2	-54.0	62.1	-3.4
Autos	15.7	-8	-1.6	2.6	-2	-17.0	-37.9	106.8	-4.6
Trucks	8.4	-1	-2.9	.1	0	-5.2	-70.3	6.1	-1.0
Plus: Imports	99.3	-1.1	-1.9	12.3	5.9	-4.9	-9.2	76.6	27.4
Autos	81.8	.8	-2.7	11.3	2.5	4.8	-14.6	85.1	13.3
Trucks	17.4	-1.9	.7	1.1	3.3	-43.3	27.0	37.0	131.6
Equals: Gross domestic purchases	361.9	-8.1	-5.2	52.7	-3.3	-9.5	-6.4	86.5	-3.6
Autos	180.2	-8.1	3.3	20.4	-6.2	-17.7	8.4	58.9	-12.6
Trucks	181.2	0	-8.4	32.2	2.8	.1	-20.2	121.9	6.4
Less: Change in business inventories	2.8	-25.2	13.4	16.2	-4.2	.....	.....	.....	.....
Autos	-2.4	-12.2	9.3	4.9	-4.3	.....	.....	.....	.....
Trucks	4.9	-12.7	4.2	10.9	0	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	358.8	17.1	-18.6	36.5	.7	22.9	-20.2	53.8	.7
Autos	182.3	3.8	-5.9	15.6	-2.1	9.2	-12.7	42.2	-4.3
Trucks	176.1	13.3	-12.8	21.0	2.7	39.7	-27.5	67.4	6.3
Addenda: Personal consumption expenditures	213.5	9.1	-5.8	22.9	-2.6	20.5	-11.2	56.6	-4.7
Producers' durable equipment	136.6	6.3	-11.3	11.6	4.1	21.3	-29.9	43.9	12.9
Gross government investment	10.0	1.9	-2.0	2.2	-7	121.8	-56.8	141.9	-21.6

NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for

motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.4, 8.5, and 8.7.

inventories; truck inventories accumulated as much as in the fourth quarter. The inventory-sales ratio for new domestic autos, which is calculated from units data, edged up to 2.1 at the end of the first quarter from 2.0 at the end of the fourth; the traditional industry target is 2.4.

Prices

The price index for gross domestic purchases increased 1.0 percent in the first quarter after increasing 0.9 percent in the fourth (chart 2 and table 4). The prices of gross domestic purchases less food and energy increased 1.1 percent, the same as in the fourth quarter.

PCE prices increased 1.0 percent, about the same as in the fourth quarter. Energy prices decreased less than in the fourth quarter, reflecting smaller decreases in the price of gasoline and oil and in the price of fuel oil and coal; in addition, the price of electricity and gas increased slightly after decreasing. Food prices and the prices of PCE excluding food and energy both increased a little less than in the fourth quarter.

Prices of nonresidential fixed investment decreased 2.0 percent after decreasing 2.5 percent. Prices of producers' durable equipment decreased less than in the fourth quarter, primarily reflecting a smaller decrease in the price of information processing equipment, including computers and peripheral equipment, and a step-up in the price

of transportation equipment that was mainly accounted for by an upturn in auto prices. Prices of nonresidential structures and of residential investment increased less than in the fourth quarter.

Prices of government consumption expenditures and gross investment increased 3.0 percent after increasing 1.5 percent. Prices paid by the Federal Government increased 6.7 percent after increasing 1.5 percent. Most of the step-up was accounted for by a pay raise for civilian and military personnel; excluding the pay raise, prices paid by the Federal Government increased 2.3 percent in the first quarter.³ Prices paid by State and local governments slowed somewhat.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.4 percent after increasing 0.8 percent; 0.2 percentage point of the first-quarter increase was accounted for by the Federal pay raise. This index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 0.8 percent, about the same as in the fourth quarter. Import prices decreased 3.7 percent after decreasing 0.2 percent; prices of petroleum products and of nonautomotive capital goods decreased more than in the fourth quarter, and the price of foods, feeds, and beverages turned down.

Table 4.—Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

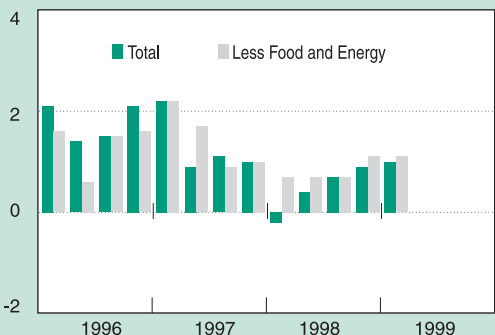
	1998			1999
	II	III	IV	I
Gross domestic product	0.9	1.0	0.8	1.4
Less: Exports of goods and services	-1.8	-2.8	-9	-8
Plus: Imports of goods and services	-4.5	-4.8	-2	-3.7
Equals: Gross domestic purchases .....	.4	.7	.9	1.0
Less: Change in business inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers .....	.5	.7	.9	1.0
Personal consumption expenditures .....	.9	1.0	1.1	1.0
Food	1.3	2.8	2.0	1.8
Energy	-7.5	-5.8	-6.8	-2.4
Personal consumption expenditures less food and energy	1.3	1.1	1.3	1.0
Private nonresidential fixed investment	-3.1	-3.6	-2.5	-2.0
Structures	3.1	1.2	1.8	.4
Producers' durable equipment	-5.2	-5.3	-4.0	-2.8
Private residential investment	1.7	3.7	4.2	1.1
Government consumption expenditures and gross investment .....	.8	1.5	1.5	3.0
Federal	0	.4	1.5	6.7
National defense .....	.3	.4	1.8	6.4
Nondefense	-6	.5	1.1	7.4
State and local	1.2	2.1	1.5	1.1
Addendum: Gross domestic purchases less food and energy .....	.7	.7	1.1	1.1

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

CHART 2

Gross Domestic Purchases Prices: Change from Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

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3. In the NIPA's, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Personal income

Personal income (current dollars) increased \$95.9 billion in the first quarter, about the same as in the fourth (table 5). Disposable personal income—personal income less personal tax and nontax payments—increased \$84.2 billion, and personal outlays increased \$114.6 billion; as a result of the larger increase in outlays than in income, personal saving fell. The personal saving rate decreased to negative 0.5 percent, the first negative rate since the quarterly series began in 1946; in the fourth quarter, the rate had been 0.0 percent (chart 3).

Wages and salaries increased \$72.5 billion and accounted for three-fourths of the increase in personal income in the first quarter; in the fourth quarter, they had increased \$65.7 billion and had accounted for two-thirds of the increase in personal income. Most of the step-up was in

government wages and salaries, which increased \$12.2 billion after increasing \$6.5 billion, reflecting the pay raise for Federal workers. Private wages and salaries increased \$60.4 billion after increasing \$59.1 billion; service industries accounted for about two-thirds of the increase in the first quarter and more than one-half of the increase in the fourth.

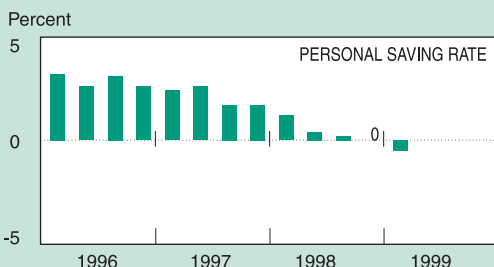
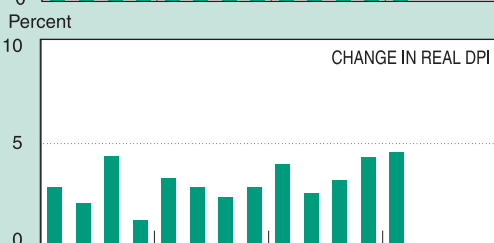
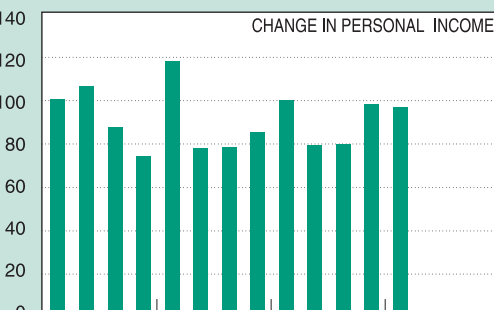
Proprietors' income increased \$5.7 billion after increasing \$20.8 billion. The slowdown was more than accounted for by farm proprietors' income, which decreased after increasing; the downturn was due to farm subsidy payments, which decreased \$6.9 billion after increasing \$10.1 billion, and, to a lesser extent, to downturns in crop and livestock prices. Nonfarm proprietors' income increased a little more than in the fourth quarter.

Transfer payments increased \$17.3 billion, after increasing \$5.4 billion; more than half of

CHART 3

Selected Personal Income and Saving Measures

Billions \$



Note—Changes are from preceding quarter; based on seasonally adjusted annual rates.

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Table 5.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	1999	1998			1999
	I	II	III	IV	I
Wage and salary disbursements	4,315.3	55.7	59.5	65.7	72.5
Private industries	3,603.9	49.4	52.6	59.1	60.4
Goods-producing industries	1,047.1	4.2	4.8	9.4	9.7
Manufacturing	758.8	.4	.1	3.2	4.7
Distributive industries	970.4	13.3	13.6	15.7	8.9
Service industries	1,586.4	31.9	34.2	34.0	41.8
Government	711.4	6.3	6.9	6.5	12.2
Other labor income	414.7	2.9	2.7	2.6	3.7
Proprietors' income with IVA and CCAAdj	602.6	7.5	4.4	20.8	5.7
Farm	27.3	.3	-2.5	9.5	-7.4
Nonfarm	575.3	7.2	6.9	11.3	13.1
Rental income of persons with CCAAdj	169.8	2.7	2.6	3.9	2.3
Personal dividend income	268.8	.5	.9	2.7	3.1
Personal interest income	770.2	6.0	6.2	.7	.3
Transfer payments to persons	1,175.6	6.8	7.1	5.4	17.3
Less: Personal contributions for social insurance	363.4	4.2	4.4	4.6	9.3
Personal income	7,353.8	78.0	78.9	97.1	95.9
Less: Personal tax and nontax payments	1,136.5	26.1	15.5	16.5	11.6
Equals: Disposable personal income	6,217.3	51.8	63.5	80.7	84.2
Less: Personal outlays	6,248.2	99.3	76.5	93.8	114.6
Equals: Personal saving	-30.9	-47.4	-13.0	-13.2	-30.3
Addenda: Special factors in personal income:					
In wages and salaries:					
Federal Government and Postal Service pay adjustments	6.1	0	0	0	6.1
Strike in motor vehicle industry	0	-1.2	-1.3	2.5	0
In farm proprietors' income:					
Subsidies	3.2	0	0	10.1	-6.9
In transfer payments to persons:					
Social security retroactive payments	0	0	0	1.2	-1.2
Cost-of-living adjustments in Federal transfer programs	6.3	0	0	0	6.3
Earned Income Tax Credit and Child Tax Credit payments	25.3	0	0	0	3.4
In personal tax and nontax payments:					
Recent tax law changes	-50.8	-5	-6	0	-5.7

NOTE.—Most dollar levels are in NIPA table 2.1.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

the step-up was due to cost-of-living adjustments (\$6.3 billion) to benefits under social security and other Federal retirement and income support programs. Increased payments under the Earned Income Tax Credit program and payments under the new Child Tax Credit program contributed \$3.4 billion to the acceleration.

Personal dividend income increased a little more than in the fourth quarter, and rental income of persons and personal interest income each increased a little less than in the fourth quarter.

Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$9.3 billion after increasing \$4.6 billion. The step-up was primarily due to an increase in the social security taxable wage base for employees and for the self-employed and to an increase in the monthly premium for supplemental medical insurance (Medicare Part B).

BEA Estimates of Wages and Salaries for 1998

The annual change from 1997 to 1998 in the national income and product accounts (NIPA) estimate of wage and salary disbursements is about \$22 billion less than the change in the U.S. total of the State estimates of wage and salary disbursements that appears elsewhere in this issue. As explained in the [“Note on the Estimates of State Personal Income”](#) on page 28, the State estimates incorporate newly available Bureau of Labor Statistics tabulations of wages and salaries of employees covered by unemployment insurance for 1998. These and other data will be incorporated into the NIPA estimates in the upcoming comprehensive NIPA revision, which is scheduled for release beginning on October 28, 1999.

Personal tax and nontax payments increased \$11.6 billion after increasing \$16.5 billion. The slowdown was primarily due to a change in the indexing for the Federal income tax withholding tables. 